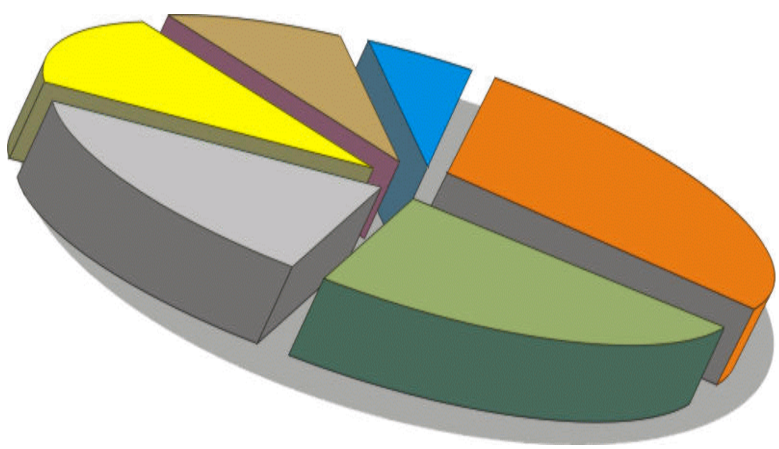
COMMITTEE ON THE BUDGET
MAJORITY CAUCUS
U.S. House of Representatives
107th Congress — Washington, DC

A BLUEPRINT FOR NEW BEGINNINGS

A SUMMARY OF THE PRESIDENT'S BUDGET

By the House Committee on the Budget
Majority Staff



9 March 2001

This document was prepared by the majority staff of the House Committee on the Budget. It has not been approved by the full committee and therefore may not reflect the views of all the committee's members.

NOTE

This document provides a summary of the President's budget proposal, *A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*, released on 28 February 2001. It summarizes provisions of the President's proposal in specific program areas, and is intended as a reference tool for Members seeking to identify the President's key recommendations.

CONTENTS

THE PRESIDENT'S OVERALL BUDGET PLAN

The President's budget blueprint for fiscal years 2002-2011 identifies the present as "an unprecedented moment in history" – one in the Nation's long-term economic prospects seem bright and the Government's growing tax surpluses provide resources for addressing significant long-term needs. To leverage the opportunity, the President has built the budget on the following seven priorities:

- **Repaying Debt** – The plan retires $2 trillion of the Government's debt held by the public, the maximum that can be repaid without penalty.
- **Reducing Tax Burdens** – It keeps $1.6 trillion of projected surplus taxes in the hands of taxpayers, through a package of tax reductions.
- **Reforming Education** – It increases Federal education spending by $47.5 billion over 10 years, coupling the extra funds with reforms that enhance accountability for results, sanction schools that consistently fail to perform, and allow parents of children in persistently failing schools to choose new ones.
- **Reforming and Modernizing Social Security** – It calls for innovative reforms of Social Security that will protect the currently and near-retired, and also provide better returns for younger workers when they retire. (The President plans to name a commission this spring to examine the potential for reform.)
- **Reforming Medicare** – It envisions Medicare modernization, including prescription drug coverage, and dedicates $153 billion over 10 years for that purpose. Among its goals, the reform should expand coverage choices for beneficiaries, and reduce Medicare's reliance on "increasingly punitive regulations, arbitrary and multiple pricing systems, and delays to maintain the status quo."
- **Revitalizing National Defense** – The President's plan takes a two-track approach to moving national defense away from its outdated cold war posture, and toward addressing the multiple threats of the modern world. First, it provides an immediate boost of $14.2 billion to increase military pay, expand health benefits for retirees, improve housing, and make a down payment on research and development. On the second track, the Pentagon could tap a 10-year contingency fund for needs to be determined after a comprehensive strategic review by the Secretary of Defense.

- **Promoting Compassionate Conservatism** – The budget contains a package of measures aimed at promoting efforts by faith-based, charitable, and other private organizations who help persons in need.

The budget also advocates "a conviction that Government should play a role that is both activist and limited." Accordingly, the President's overall package follows these parameters:

- It holds the growth of total discretionary spending to roughly the rate of inflation. For fiscal year 2002, appropriations total $660.7 billion, up from $635.0 billion enacted for the current year. This figure includes total program increases of $46.2 billion to accommodate the discretionary initiatives announced during the presidential campaign (such as to strengthen education and defense), annual increases in Federal worker's pay, and a $5.6 billion reserve for national emergencies (such as natural disasters). These are partially offset by removing one-time spending items and earmarks, along with other programmatic decreases, for a total of $20.5 billion in savings.

- Apart from the Medicare proposal, the President recommends other mandatory spending increases to enhance child welfare services, encourage teaching as a profession, and account for the outlay effects of proposed changes to tax credits, such as the increase in the child tax credit. Those spending increases are partially offset by proposed savings in Medicaid ($17.4 billion over 10 years), sales and lease fees on the electromagnetic spectrum ($8.9 billion), eliminating corporate subsidies, and extending provisions set to expire. Overall, the plan contains $143 billion in net mandatory spending increases.

The budgetary projections are supported by economic projections that are more conservative than the Blue Chip forecast of private-sector economists. The average rate of real GDP growth used by the administration (3.2 percent) is virtually the same as the Congressional Budget Office [CBO] projection (3.1 percent). Near-term, the administration's growth forecast is even lower than CBO's.

The remainder of this document summarizes key provisions in specific program areas of the President's budget. It is intended simply as a reference tool for Members seeking to identify the President's key recommendations.

DEBT REPAYMENT

Paying down the national debt is the first of the President's seven priority initiatives. The administration proposes to pay down $2 trillion of debt held by the public over the next 10 years. As a result, the Government's publicly held debt would decline to 7 percent of Gross Domestic Product [GDP], its lowest level in more than 80 years. (For comparison, debt held by the public was 80 percent of GDP in 1950, 42 percent in 1990, and 35 percent as recently as 2000.)

The President argues that his plan would pay off the "maximum amount" of public debt. The roughly $1 trillion remaining debt in 2011 is considered "non-retireable" or "non-redeemable," the President's budget document says. This remaining debt consists of marketable bonds that will not have matured, savings bonds, and special bonds for State and local governments, among others. The Federal Government would have to pay a "premium" as high as $150 billion to persuade bond holders to sell back these bonds – and even then the holders would not be required to release the bonds before maturity, because these instruments are not "callable." In this environment, the budget says, the Government will begin accumulating "excess cash balances" (when surpluses exceed the amount of maturing debt). The budget cautions as follows:

> By law, these balances can be invested only in collateralized bank deposits or held in accounts at the Federal Reserve. However, the sheer size of these balances would soon overwhelm the ability of these institutions to house this excess cash. As such, the Government would be forced to begin investing its "excess cash" in private assets. Such Government involvement in private financial markets is unacceptable to many, including the administration.

The argument echoes concerns expressed previously by others. House Majority Leader Richard K. Armey has warned that excess surpluses invested in private assets could have serious political consequences. "In no time, the Federal Government would use its vast new economic influence to advance any number of politically correct causes," he wrote in a February 6 memo to Members. "It would forever change the relationship between the Government and our people."

From an economic perspective, Federal Reserve Chairman Alan Greenspan has warned that the political pressure connected with such investments would risk "sub-optimal performance" by capital markets, a less efficient economy, and weaker growth in living standards. As a result, Chairman Greenspan calls this "the critical longer-term fiscal policy issue" facing Congress and the administration.

TAX RELIEF

SUMMARY

Under the President's budget, taxpayers would keep about one fourth of projected surpluses (about $1.6 trillion over 10 years) in the form of lower taxes. These changes would occur principally through the following major changes in the tax code.

- **Personal Marginal Rate Reduction:** Replace the five current tax rates (15, 28, 31, 36, 39.6 percent) with a simplified structure of four lower rates (10, 15, 25, and 33 percent). ($274.7 billion over 5 years, $811.3 billion over 10 years.)

- **Doubling the Child Tax Credit:** Increase the current $500 per child tax credit to $1,000 per child, raise the threshold for phase-out to $200,000, and apply the credit to the Alternative Minimum Tax [AMT]. ($57.5 billion over 5 years, and $192.7 billion over 10 years.)

- **Marriage Penalty Adjustment:** Provide a 10-percent deduction for two-earner couples so the lower-earning spouse can deduct up to $3,000 of the first $30,000 of income. (The President's proposal does not totally eliminate the marriage penalty by adjusting the income thresholds for married filing jointly rates to be double single rates except for at the 10-percent rate.) ($36.7 billion over 5 years, and $111.8 billion over 10 years.)

- **Death Tax Elimination:** Phase down and then repeal the 55-percent estate tax imposed on the heirs at the time of an individual's death. This tax often results in family farms and businesses having to be sold to pay the tax and people losing their jobs when successful small businesses give half their income to the government. ($60.2 billion over 5 years, and $266.6 billion over 10 years.)

- **Charitable Deduction Expansion:** Allow, for the first time, the current deduction for charitable contributions to the 70 percent of all filers (80 million taxpayers) who cannot do so today because they do not itemize. Also, permit tax-free and penalty-free withdrawals from IRAs for charitable contributions and raise the cap on deductions for corporate charitable giving. The President claims this could increase voluntary giving by $14 billion a year. ($17.2 billion over 5 years, and $56.0 billion over 10 years.)

- **Refundable Tax Credits for Private Health Insurance:** Add a new refundable $2,000 tax credit (so even those with no tax liability get the necessary resources) to help lower-income people who do not have access to employer-sponsored health care coverage to buy their own insurance. Also, permanently extend Medical Savings Accounts [MSAs] and add new tax provisions to improve flexible spending accounts and help those with long-term care costs. (One of $123 billion in additional tax incentives.)

- **ESA Increase:** Raise 10-fold the annual voluntary contribution on tax-free Education Savings Accounts [ESAs] from the current limit of $500 to $5,000 per child. ($693 million over 5 years, and $5.6 billion over 10 years.)

- **Permanent R&D Tax Credit:** permanently extend the current 20-percent tax credit for incremental increases in research and experimentation expenditures, which is due to expire. ($9.9 billion over 5 years, and $49.6 billion over 10 years.)

CONTEXT OF TAX REDUCTION

The Office of Management and Budget [OMB] projects the Federal Government will collect $28 trillion in taxes over the next 10 years under current law. Under the President's proposal, tax collections would total about $26.4 trillion – a reduction of less than 6 percent, or one dollar out of 17 over the period. By comparison, the Federal Government's take over the previous 10 years (1992-2001) was $15.6 trillion.

Even after the President's tax reduction package, surpluses still total more than $3.6 trillion over 10 years. After fully protecting Social Security and Medicare, a 10-year fund is still available for other priorities, debt reduction, and contingencies.

KEY POINTS

The President's budget document presents the following significant points about the tax reduction plan:

- The President's tax relief proposal will cut taxes for everyone who pays income taxes today.

- Six million of the lowest income American families are completely removed from the tax rolls.

- The proposal provides the greatest *percentage* reduction for the lowest income families (more than 30 percent for people earning $50,000 a year; less than 10 percent for those making more than $100,000).

- One in five taxpaying families with children would no longer pay any income tax at all. For instance, a married couple with two children and one income making up to $37,000 will get a 100-percent tax cut.

- That same family making $50,000 would get a 50-percent cut (at least $1,600).

- The cut would be less than 20 percent for incomes above $80,000.

- Under the President's plan, people making more than $100,000 would pay a greater percentage of the total income tax than they do today: 74.2 percent, compared with 70 percent under current law.

- In response to the slowdown in the economic expansion that began almost 10 years ago, elements of the President's tax cut (i.e., marginal rate reduction) *could be made retroactive*.

EDUCATION

SUMMARY

The President's "No Child Left Behind" education reform plan increases schoolwide accountability measures, imposes sanctions on failing schools, and lets parents of children attending consistently failing schools choose new ones. The proposal also prioritizes the goal of making every child able to read by the third grade.

The budget document repeats the President's emphasis on local control and flexibility:

> The President believes that while the Federal Government properly plays a partnership role in the education of our children, education remains primarily a State and local government responsibility. The Federal Government should use the comparatively small amount of its investment in elementary and secondary education – approximately 7 percent – to encourage systemic education reform in the States.

But the budget also stresses that, in return, local school districts must be held accountable for results.

The fiscal year 2002 budget submission funds these efforts by tripling spending on reading education and providing a total increase of 8 percent, or $1.6 billion, for the Department of Education's elementary and secondary education programs. The agency's discretionary budget authority will rise by 11.5 percent, or $4.6 billion, to $44.5 billion. This includes $2.1 billion of advance funding from the fiscal year 2001 appropriations bill. Over 10 years, agency spending would rise by $47.5 billion.

Key components of the president's plan are the following:

- An addition of $5 billion over 5 years for reading education. Funding would rise from $286 million in 2001 to $900 million in 2002. The vehicle is a "Reading First" initiative, which consolidates several existing reading programs while targeting funds to scientifically-based reading programs for Kindergarten through the second grade. An "Early Reading First" program will teach "pre-reading" to preschoolers.

- An increase of $340 million for elementary and secondary education programs in other Federal agencies, which brings the overall elementary-secondary increase to almost $2 billion.

- An additional $1 billion for the Pell Grant Program, increasing the maximum award for all qualifying students above the current level of $3,750.

- An expansion of teacher student loan forgiveness program by increasing the loan forgiveness limit from $5,000 to $17,500 for math and science majors who teach those subjects in high-need high schools for 5 years. This is a mandatory spending initiative with an estimated cost of $64 million over 10 years.

- An increase of $62 million for the Impact Aid construction program, which currently receives only $12.8 million. This is intended to improve the quality of public school buildings and eliminate the backlog of repairs and construction for schools on or near military bases and those serving Native American lands.

- Consolidation and increased funding for teacher training and recruiting. The Plan creates a $2.6-billion fund that provides States the flexibility to improve teacher quality while ensuring increased accountability.

- A sum of $150 million to help charter schools acquire, construct, or renovate facilities.

- Increased funds for “character education,” from $9.3 million to $25 million.

- Increased funds for the Troops to Teachers Program, to $30 million.

- An increase of 6.4 percent in funding for historically black colleges and graduate institutions, and Hispanic serving institutions, with a goal of increasing these programs 30 percent by 2005.

- A new program to establish math and science partnerships. States and local school districts could receive new Federal monies to help fund partnerships with the math and science departments of institutions of higher education. The goal is to strengthen math and science instruction in elementary and secondary schools.

- An increase for special education. The budget states that funding for the Individuals with Disabilities Education Act [IDEA] will rise, but the amount of the increase is not specified.

The budget also includes several education-related tax proposals, which are part of the President’s tax relief package:

- A 10-fold increase in the annual contribution ceiling (from $500 to $5,000) for Education IRAs, providing about $5.6 billion in tax relief over 10 years. Under this proposal, Education IRAs, currently used only for higher education expenses, could also be used for K-12 educational costs.

- A tax deduction for teachers that allows them to deduct up to $400 to help defray the costs associated with out-of-pocket classroom expenses, such as books, school supplies, professional enrichment programs, and other training.

- A full tax exemption for all qualified pre-paid tuition savings plans.

- A provision to allow State private-activity bonds to be used for school construction and repair.

REDIRECTED RESOURCES

The President's budget also proposes the following:

- Savings of $433 million by discontinuing all one-time projects from 200l and eliminating funding for short-term activities whose purposes have been met. The budget document does not identify these specific programs.

- Redirecting the $1.2 billion provided for school renovation, first funded in 2001 at $1.2 billion. Allows States to reallocate the 2001 funds among either special education, school renovation or technology. For 2002, the budget would allow States to use this funding stream for priorities such as special education, help for low-performing schools, or accountability reforms.

SOCIAL SECURITY

SUMMARY

Social Security's spending path is unsustainable in the long run. This trend is driven largely by demographics. As demographics change and costs increase, the challenge is to ensure that the Social Security system is strengthened for tomorrow's retirees. The President intends to meet that challenge by establishing a bipartisan Presidential Commission this spring to put Social Security on a sound and sustainable foundation over the long haul through reform. The Commission will make its recommendations this fall and Congress can act by the end of the year. In the meantime, the President will keep America's commitment to its senior citizens by:

- Locking away every penny of the $2.6 trillion Social Security Surplus;
- Providing $7.7 billion for the Social Security Administration [SSA], an increase of $456 million, or 6.3 percent above the fiscal year 2001 level. The funding increase will allow SSA to process 100,000 more initial disability claims in 2002 than in 2001.

PRINCIPLES FOR SOCIAL SECURITY REFORM

The Budget also lists the President's principals for Social Security reform, as follows:

- Modernization must not change existing benefits for current retirees or near-retirees, and it must preserve the disability and survivors' components. Promises made to current retirees must be kept.
- The Social Security surplus must be preserved only for Social Security. For 30 years, Social Security surpluses were used to mask spending increases in programs unrelated to Social Security. Surpluses in the Social Security Trust Funds will total $2.6 trillion over the next 10 years. These surpluses will be saved for Social Security reform and $2 trillion will be used to reduce all available debt held by the public.
- Social Security payroll taxes must not be increased, as they have been 20 times since the program began in 1937.

- The Government itself must not invest Social Security funds in the private economy.

- Successful Social Security reform must be built upon individually controlled, voluntary personal retirement accounts that will augment the Social Security safety net.

THE BENEFITS OF PERSONAL RETIREMENT ACCOUNTS

According to the President's budget, personal retirement accounts, which would be voluntary, would enable individuals to build financial wealth and security in a way that the current Social Security system does not.

- Personal accounts invested in safe private financial markets will earn higher rates of return than the traditional system and help workers enhance personal savings and their freedom to retire.

- Ownership of a real financial asset without the political risk of future changes would mean more security for working Americans to build their own retirement assets, and to pass those assets on to their children.

- This higher rate of return, through individually controlled investments in private debt and equity markets, is the key to the success of personal accounts. A 2-percentage-point to 4-percentage-point differential, compounded over time, means greater retirement security than under current law.

- A balanced portfolio of stocks and bonds can, in the long run, yield almost a 5.5 percent real rate of return. Even a portfolio of inflation-adjusted Government bonds yields a 3.0 percent real rate of return. Both are significantly better investments than those implicit in the current Social Security system, which, for many younger workers, could ultimately result in a negative rate of return.

MEDICARE

SUMMARY

The President's fiscal year 2002 budget seeks to modernize and reform the Medicare Program. Since 1965, Medicare has served millions of the Nation's seniors and disabled people. Over the past 36 years, however, Medicare has not kept pace with modern medicine. For example, although 98 percent of private health insurance plans offer a prescription drug benefit or a cap on out-of-pocket expenses, Medicare lacks coverage for prescription drugs and catastrophic costs. In addition, between 2010 and 2030, Medicare will face a tidal wave of retiring baby boomers. To tackle these issues, the President proposes $153 billion over the next 10 years to provide prescription drug coverage for nation's neediest seniors, and to support comprehensive Medicare reform.

The President reserves every dollar of Medicare revenue for spending on the Medicare Program. Although the President counts the Medicare Hospital Insurance [HI] surplus as part of his 10-year contingency fund, the administration intends to use Medicare dollars only for Medicare.

The President's budget, calls for $229.9 billion in Medicare budget authority for fiscal year 2002. This represents an increase of $10.9 billion, or 5 percent, over the fiscal year 2001 level. Over 5 years, Medicare budget authority totals $1.3 trillion. Specifics of the President's proposals:

- **Immediate Helping Hand Prescription Drug Plan:** To modernize and reform Medicare, the President proposes $11.2 billion in 2002, $64.2 billion in fiscal years 2002-2006, and $153 billion in fiscal years 2002-2011.

  - The Immediate Helping Hand funds will go to States to offer assistance for low-income seniors to cover all or part of the cost of prescription drugs and catastrophic drug coverage (more than $6,000 in out-of-pocket drug costs) for all seniors.

  - Seniors whose incomes are at or below 135 percent of poverty would have no premium and nominal co-payments for prescription drugs. Seniors whose incomes are between 135 percent and 175 percent of poverty would receive partial drug coverage.

  - The proposal would provide assistance until Medicare reform is implemented.

- **Medicare Reform:** The President has laid out the following broad principles for Medicare reform:
  - Medicare's current guarantee of access to seniors must be preserved.
  - Every Medicare recipient must have a choice of health plans with the option of purchasing prescription drugs coverage.
  - Medicare must cover expenses for low-income seniors.
  - Reform must include streamlined access to the latest medical technologies.
  - Medicare payroll taxes must not be increased
  - Reform must establish and accurate measure of the solvency of Medicare.
- **Regulatory Reform:** In his budget, the President states: "The need for Medicare reform does not relate only to the financial condition of Medicare or the lack of adequate coverage. Of perhaps equal concern is the complexity and inflexibility of the Medicare bureaucracy itself." Accordingly, the President proposes to enhance health care choices for beneficiaries, rather than continue with increasingly burdensome regulations and arbitrary pricing systems. (Indeed, some contend that Medicare currently operates in a manner similar to an HMO.)

NATIONAL DEFENSE

SUMMARY

The fiscal year 2002 defense budget is the first down-payment on the President's plan to transform the U.S. military. This "transformation strategy" is to be based on a comprehensive strategic review by Secretary of Defense Rumsfeld. This review will examine the state of U.S. strategy, the structure of military forces, and the priorities of the defense budget. In his speech to military personnel on 13 February 2001 at Norfolk, VA, the President said he had given Secretary Rumsfeld a "broad mandate to challenge the status quo as we design a new architecture for the defense of America and our allies." At the conclusion of the review, the President will decide whether additional increases in the budget are appropriate.

The President's budget proposal, for National Defense provides $324.8 billion in budget authority for fiscal year 2002. This represents an increase of $14.2 billion or 4.8 percent above the fiscal year 2001 appropriated level. Fiscal year 2002 National Defense discretionary spending is $324.9 billion in budget authority. Over 5 years, the President's budget for National Defense totals $1,713.6 billion in budget authority. The budget includes the following initiatives:

- Adds $5.7 billion for these quality of life issues:

  - $1.4 billion for a military pay raise and other compensation to improve recruitment and retention. The pay raise is set at the Employment Cost Index plus 0.5 percent.

  - $3.9 billion to fund new and expanded health benefits for over-65 military retirees.

  - $400 million for housing, to improve quality of life for military personnel and their families and to reduce out-of-pocket expenses. New construction, renovation, and privatization will be considered.

- A sum of $2.6 billion has been included as what the President has described as "a down-payment on the research and development effort that lies ahead." The Department of Defense [DOD] intends to do research and development to create capabilities to defend against missiles, terrorism, and potential threats against space assets and information systems.

- The President seeks to open to competition functions that are commercial in nature. Savings obtained through the initiative will be applied to high-priority programs identified by the defense strategic review.

- At presidential direction, DOD will review opportunities to expand the use of commercial practices in weapons procurement.

- The Secretary of Defense will review the Department's infrastructure for potential savings from closing unneeded bases and facilities.

MEDICAID/SCHIP

SUMMARY

The President's fiscal year 2002 budget states that over the next few months the administration will recommend reforms to improve the way Medicaid and the State Children's Health Insurance Program [SCHIP] provide health coverage to the poor and near poor. After consulting with the States, the administration will develop ideas to increase State flexibility. The review will emphasize giving States the flexibility to use private health insurance, when possible, and to coordinate with employment-based insurance for those who have access to it.

The President's budget proposes $142 billion in Medicaid budget authority [BA] for fiscal year 2002. This represents a net increase of $13 billion, or 10.1 percent, over the fiscal year 2001 level. Over the 5-year period 2002-2006, total BA for Medicaid is $838 billion; over the 10-year period 2002-2011, Medicaid BA would total $2.1 trillion. The President proposes Medicaid budget savings of $6.9 billion over 5 years and $17.4 billion over 10 years. Included in his proposed "redirected resources" and "potential reforms" are the following:

- **Reforming Medicaid and SCHIP:** In cooperation with the States, the administration will develop ideas to increase State flexibility in these programs. The review will emphasize giving the States the flexibility to use private health insurance and to coordinate with employment-based insurance.

- **Upper Payment Limit Loophole:** Under the upper payment limit [UPL] loophole, there is a financial incentive for States to make higher than usual payments for care provide at non-State government facilities, namely, county and city facilities, allowing States to claim higher Federal Medicaid matching dollars. States then require these facilities to transfer the excess Medicaid costs back to the State. States then use these funds to cover part of the State Medicaid share or for other purposes. H.R. 5661, the Medicare, Medicaid, and SCHIP Benefits Improvement Act of 2000, took initial steps to curb the financing abuses associated with the UPL loophole. The administration's budget is proposing to prohibit new hospital loophole plans approved after 31 December 2000 from receiving the higher upper payment limits proposed in a recent Health Care Financing Administration final rule.

OTHER HEALTH INITIATIVES

SUMMARY

The President's fiscal year 2002 budget includes targeted investments in key presidential priority areas such as improving biomedical research, strengthening community-based health care, and enhancing drug treatment.

For health care and research (excluding Medicaid), the President proposes $41.0 billion in discretionary budget authority for fiscal year 2002. This represents an increase of $2.1 billion, or 5.4-percent, over the fiscal year 2001 level. The President's budget includes the following new discretionary health care initiatives:

- **Doubling the NIH Budget:** The budget includes an initiative to double the National Institutes of Health [NIH] 1998 funding level by 2003. To accomplish this the 2002 budget includes a $2.8-billion increase, or 14 percent, to $23.1 billion in budget authority. Over the past 3 years, NIH has received annual increases of approximately $2.0 billion, $2.2 billion, and $2.5 billion.

- **Community Health Centers:** To strengthen the health care safety net, the budget proposes a $124 million increase for Community Health Centers. In fiscal year 2001 these centers were funded at $1.1 billion. The $124 million increase is the first installment for a multi-year initiative to increase the number of community health center sites by 1,200. There are currently about 3,000 community-based health center sites.

- **Reforming the National Health Service Corps [NHSC]:** The NHSC offers scholarships and loan repayments to health care providers in exchange for commitments to provide health care in under-served areas. The President proposes a targeted management reform initiative to help the Corps better address the neediest communities.

- **Health Communities Innovation Fund:** This initiative recognizes the innovations local organizations are making in addressing health care needs. In 2002, the Department of Health and Human Services [HHS] will target $400 million to projects at the local level, including programs to promote comprehensive care through integrated State delivery systems for women and children; grants to States to help prevent disease; and research programs to promote alternative disease treatments.

- **Increasing Access to Drug Treatment:** According to the Nation Household Survey on Drug Abuse, there are almost 3 million people who are not getting the drug treatment they need. The President provides $111 million to provided additional assistance to those in need of substance abuse treatment. Of this $111 million, $100 million would go to the Substance Abuse and Mental Health Services Administration.

REDIRECTED RESOURCES AND POTENTIAL REFORMS

To moderate the large discretionary funding increases that the Department of Health and Human Services [HHS] has received in recent years, the President's budget redirects resources for certain health programs.

- **Health Professions:** The President's budget recommends a reduction to Health Professions' funding. The President states that these training grants were created almost 40 years ago when there was a physician shortage; today there is no shortage. The President proposes to redirect these resources to other workforce supply issues, including nursing and health professions diversity.

- **Community Access Program:** The President's budget recommends eliminating the relatively new Community Access Program. Funds would be redirected toward other programs for improving access to care and health insurance coverage, including Community Health Centers and Medicaid.

HHS will undertake a departmentwide examination to ensure there is no activity overlap or duplication. The President is considering two potential reforms in particular.

- **Increasing State Flexibility in Public Health Grants:** Excluding NIH, HHS manages more than 70 public health grant activities totaling almost $9 billion. The President is considering increasing State flexibility to remove barriers to effective targeting of these resources.

- **Rationalizing the HHS-Wide Research Agenda:** Excluding NIH, HHS supported $1.2 billion of public health, health services, and policy research in 2001. The President is considering prioritizing the HHS research agenda to focus on activities where the Federal interest is clear and focusing less on research which is more traditionally performed by universities and other research institutions.

WELFARE

SUMMARY

The President's budget for fiscal year 2002 encourages continuing State innovation and the mobilization of private sector, corporate, and faith-based sources to address the needs of low-income Americans, which began with the historic 1996 welfare reform law. The budget proposes a range of initiatives encouraging charitable giving to community organizations that are effectively helping disadvantaged Americans to improve their lives and increase their families' well-being. Other initiatives are intended to strengthen low-income families and to address the needs of children caught in our foster care system.

Among the administration's policy proposals aimed at helping low-income families and children are the following:

FAITH-BASED AND OTHER COMPASSIONATE CONSERVATIVE PROPOSALS

- Creating a Compassion Capital Fund to invest in charitable best practices.
- Opening Federal after-school programs to community groups, churches, and charities, and creating a $400-million after-school certificate program within the Child Care and Development Block Grant. The new grants to States will assist parents in obtaining after-school child care with a high-quality educational focus.
- Providing $60 million in 2002 for competitive grants to community and faith-based organizations for initiatives to promote responsible fatherhood and to combat the crisis of father absence. Grants will also be awarded to organizations that conduct marriage education courses and teach conflict resolution.
- A pilot program for inmates nearing release, and making Federal funds available on a competitive basis for faith-based pre-release programs at Federal prisons.
- Making grants available to faith-based and community groups focused on improving the prospects of low-income children of prisoners.
- Increasing drug treatment funding, and ensuring that faith-based and other non-medical drug treatment programs have equal access to Federal funds.

- Providing $33 million in 2002 to establish Second Chance Homes for unwed teenage mothers and providing them with adult supervision when they can no longer remain in their parents' homes.

- Expanding "charitable choice" to all Federal laws authorizing the Government to pay nongovernment entities for services to beneficiaries.

- Establishing an Office of Faith-Based Action in the White House to identify and remove barriers that faith-based organizations encounter precluding them from participating in Federal programs that help people.

- Permitting all tax filers, including the 70 percent who do not itemize, to take Federal charitable deductions from income tax. This could stimulate an additional $14 billion annually in new charitable giving by nonitemizers.

- Creating a charitable State tax credit that would provide a credit (up to 50 percent of the first $500 for individuals and the first $1,000 for couples) against State income or other taxes for contributions addressing poverty and its impact. States could offset the effects of the credit by using funds from their Temporary Assistance to Needy Families [TANF] grant. This is assumed to increase TANF spending by $850 million through fiscal year 2006.

- Extending the new State charitable tax credit to corporations by making corporations eligible for a tax credit of 50 percent of the first $1000 donated to charities fighting poverty.

OTHER PROPOSALS

- Permitting charitable contributions from IRA accounts without taxing the withdrawal. This would have a revenue impact totaling $2.2 billion over 10 years as a result of increased charitable giving from funds held in IRA accounts.

- Raising the cap on corporate charitable deductions from 10 percent of a company's taxable income to 15 percent. Over 10 years, this generates a revenue loss of $1.5 billion as a result of increased charitable giving by corporations.

- Making the adoption tax credit permanent, and providing $1 billion over 5 years to increase the credit from $5,000 to $7,500 for nonreimbursable expenses associated with the adoption of a child.

- Providing States an additional $776 million over 5 years for preventive services to families in crisis to keep children in, or to return them to, their homes whenever possible, and establishing a goal of "permanence" within the child welfare system to ensure children are placed in a safe and stable biological family, or, if that is not possible, to speed the process of adoption.

- Providing $233 million over 5 years for vouchers to young people who “age out” of foster care. The vouchers – worth up to $5,000 per child transitioning from foster care – could be used for college tuition or for vocational training.

- Maintaining current policy regarding food stamps. Spending will total approximately $20 billion in fiscal year 2002.

HOUSING AND HUD PROGRAMS

SUMMARY

For programs in the Department of Housing and Urban Development [HUD], the President proposes adding $2.4 billion for renewal of all expiring rental subsidy contracts, protecting families currently receiving this assistance. The budget also provides 34,000 additional low-income families with new Section 8 housing vouchers, and takes steps to promote home ownership among low-income families.

Otherwise, the HUD budget reflects the President's overall effort to restrain the rate of growth among Federal agencies relative to recent years. HUD Secretary Martinez has characterized the budget request for HUD as essentially "flat-line," with no new program initiatives beyond those that the President put forward during the campaign. The focus in fiscal year 2002 will be to improve management of HUD's programs, several of which have been designated among the General Accounting Office's "High Risk" programs, vulnerable to substantial amounts of fraud and mismanagement.

Among the housing policy initiatives announced by the President, the budget:

- Assists more than 130,000 low-income families with the down-payment on their first home.

- Continues to reform the Section 8 program by implementing measures that improve the utilization of vouchers.

- Increases the number of community technology centers in high-poverty neighborhoods.

- Expands the number of jurisdictions receiving funds to house people with AIDS.

- Continues Community Development Block Grant [CDBG] formula funding at the 2001 level.

- Provides $1.7 billion over 5 years to establish "Renewing the Dream" investor-based tax credits to States for affordable single-family housing. Investors will receive a tax credit of up to 50 percent of project costs to rehabilitate abandoned housing or create new single-family housing in low-income urban and rural neighborhoods. This program will build or rehabilitate 100,000 homes.

- Provides a tax credit to financial institutions that match private Individual Development Accounts used to save for a first home, start a business, or cover educational expenses.

- Increases the Public Housing Operating program by $150 million, in part to cover utility rate increases and other cost increases to operate public housing.

REDIRECTED RESOURCES AND POTENTIAL REFORMS

Other proposals in the President's budget:

- The Public Housing Capital program is reduced by $700 million relative to 2001 funding. Full funding is provided for the accrual of new capital needs, and local Public Housing Authorities are encouraged to use more than $6 billion in unspent funds to reduce the backlog of needs.

- The Public Housing Drug Elimination program is terminated. It was found to have limited impact, and other sanctions such as eviction have proved more effective at controlling drug trafficking in public housing. Funds are redirected to other anti-drug efforts.

- The Rural Housing and Economic Development program, begun in 1999, is terminated due to its duplication of other programs, such as CDBGs.

- Premiums for some Federal Housing Authority [FHA] programs, such as condominiums, rehabilitation loans, and multifamily loans are to be increased so that all single-family FHA borrowers pay the same premiums, and that the programs operate without the need for a subsidy.

- Efforts will be made to collect the hundreds of millions of dollars in rent owed by HUD assisted tenants who fail to disclose their total incomes and thus defraud the program. Among the tools to achieve this goal will be fully implementing HUD's existing authority to match tenant-reported incomes with IRS records.

AGRICULTURE

SUMMARY

The President's budget for fiscal year 2002 seeks to help farmers compete in the world marketplace, as well as to maintain competitive markets at home. Another priority is providing farmers and ranchers with a strong safety net and a means to manage economic downturns. Farmers and ranchers also would benefit significantly from the proposed repeal of the death tax (see section on tax relief). Individuals, family partnerships, or family corporations own 99 percent of U.S. farms. Estate taxes can destroy family-owned farms, ranches, and small businesses when the tax forces farmers and ranchers to sell land, buildings, or equipment to pay the Government.

The President proposes $15.8 billion in budget authority for agriculture in fiscal year 2002. In addition, agriculture is one of the areas (national defense is another) for which the President proposes a 10-year contingency fund. The funds can be made available for emergencies, including natural disasters or other issues affecting farm incomes. The President's budget includes the following initiatives:

- In general, it funds Department of Agriculture [USDA] bureaus at or above the 2001 enacted level, not including the one-time emergency funding and unrequested projects provided in 2001.

- It supports USDA food safety activities, including providing 7,600 meat and poultry inspectors.

- It finances the acquisition of affordable housing by 57,000 low-to moderate-income rural residents; creates 40,000 jobs in rural areas; and gives access to 1.4 million poor, rural residents to clean, safe drinking water.

- It allocates conservation assistance to 650,000 landowners, farmers, and ranchers.

- It maintains funding for priority activities in the Forest Service's wildland fire management plan, including hazardous fuels reduction.

- It redirects USDA research, providing emphasis in biotechnology, development of new agricultural products, and improved protection against emerging plant and animal diseases, as well as crop and animal pests. It also redirects funds for continued implementation of other major initiatives like crop insurance reform.

- It expands overseas markets for American agricultural products by strengthening USDA's market intelligence capabilities and the Department's expertise for resolving technical trade issues with foreign trading partners.

REDIRECTED RESOURCES AND POTENTIAL REFORMS

In addition, the President's budget:

- Does not continue approximately $1.1 billion in one-time mostly emergency funding enacted last year. Specifically, eliminates $109 million for emergency pest suppression, $235 million for rural development assistance, $190 million for watershed and flood prevention and emergency conservation protection activities needed for 2000 and 2001 disasters, and about $600 million in wildland firefighting expenses.

- Eliminates 300 congressionally earmarked research, education, and extension grants to land grant universities, saving $150 million.

- Saves $44 million in Department facilities renovation and construction projects.

- Terminates new Rural Telephone Bank lending, reducing budget authority by $3 million and lowering loan levels by $175 million.

- Eliminates a number of temporary USDA programs that have completed their missions, as well as programs whose goals can be achieved through other existing programs. Examples include modular housing demonstration loans, the Forestry Incentives Program, and brucellosis eradication programs.

- Proposes reforms of Public Law 480 USDA international food aid, including a review of the effectiveness of the Title I program and an examination of the adverse effect on commercial U.S. agricultural sales of section 416(b).

- Reforms service delivery through USDA field offices, including making it possible to transact business with them electronically.

- Streamlines the Forest Service's field structure to improve efficiency of its work force and administrative operations.

VETERANS

SUMMARY

In fiscal year 2002, the President would provide $51.6 billion for benefits and services: $28.1 billion for mandatory benefits and $23.4 billion in net discretionary budget authority for medical care and burial services. This represents a net increase in discretionary budget authority of $1 billion, or 4.5 percent, over the fiscal year 2001 level. Over the 5-year period 2002-2006, total budget authority is $277 billion, including $121.3 billion in discretionary spending and $155.7 billion in mandatory spending.

The President's budget for the Department of Veterans Affairs [VA] includes the following initiatives:

- The permanent extension of certain mandatory savings authorities that would otherwise expire over the next several years. These include authority to: use IRS data to verify income to determine eligibility for means tested veterans and survivors benefits; round down disability benefits to the nearest dollar after a cost of living adjustment has been applied; limit VA pensions to Medicaid recipients in nursing homes; and continue current housing loan fees.

- The elimination of the "vendee" loan program. The vendee loan program allows the general public to obtain a direct loan from VA to purchase a home that VA has acquired when a veteran defaults on a loan.

- Legislation to ensure that military retirees who are also eligible for VA medical care enroll with only one of these agencies as their health care program. This is intended to avoid duplication and enhance the quality and continuity of care.

ADMINISTRATION OF JUSTICE

SUMMARY

The budget funds nine presidential initiatives and related enhancements for immigration, prisons, and drug enforcement (totaling $395 million in new funding). The initiatives include expanding the range of community groups and parents who will engage in local drug prevention efforts, increasing drug treatment, taking steps to improve the safety of our schools, and enhancing the security of our borders.

For the Administration of Justice category overall, the President's budget calls for $30.9 billion in budget authority for fiscal year 2002, of which $29.7 billion is discretionary. Over 5 years, the President's budget would provide $165.3 billion in budget authority in this area.

Among the President's specific initiatives are the following:

- Providing the first installment of $100 million in a 5-year, $500-million initiative to fund new personnel, introduce employee performance incentives to process cases quickly, and to provide quality service to all legal immigrants, citizens, businesses, and other Immigration and Naturalization Service customers.

- Increasing the number of Border Patrol agents by 1,140 over 2 years, which will result in 11,000 agents being deployed along the Nation's borders – 12 percent more than in 2001.

- Including $3.5 billion for the Federal Bureau of Investigation [FBI], an increase of 8 percent over 2001, primarily to combat terrorism and cybercrime through a combination of additional personnel and the development and deployment of new technical capabilities. The budget also includes resources for the FBI to provide security support for the 2002 Winter Olympics in Salt Lake City.

- Providing $1.5 billion for the Drug Enforcement Administration [DEA], up 9 percent over 2001, to enhance operational support programs including laboratory services and DEA's office automation infrastructure, which gives agents access to investigative databases and other automated support systems.

- Providing $4.7 billion for prisons, an 8 percent increase over 2001, for new prison construction and activations, as well as additional contract bed space, all of which is necessary to prevent further systemwide overcrowding – currently at

34 percent, up from 25 percent just 2 years ago. The budget includes $5 million to establish a faith-based, prison pre-release pilot program to reduce the rate at which ex-offenders are returned to prison.

- Including $1.3 billion for the U.S. Attorneys, an increase of 7 percent over 2001, primarily to combat cybercrime based on the dramatic growth and reliance businesses have placed on the Internet. The budget also includes resources for the U.S. Attorneys to handle an overload of *habeas corpus* cases.

REDIRECTED RESOURCES AND POTENTIAL REFORMS

The budget also proposes:

- Redirecting $1.5 billion from State and local grant assistance programs that have accomplished their initial objective, have been awarded on a non-competitive basis through legislative action, or are of questionable merit. These programs have grown more than five-fold since 1992, reaching $4.6 billion in 2001, spread across more than 60 programs of varying size. Among the programs proposed for reduction are the State Prison Grant program, which has largely accomplished its goal of encouraging States to toughen their ‘‘truth in sentencing’’ laws; and non-formula Byrne grants, most of which are not awarded on a competitive basis, due to congressional earmarks. The reallocation will permit increases for Federal law enforcement agency priorities, as well as for selected State and local grants, including Violence Against Women Act programs, Weed and Seed crime prevention, projects Child Safe and Sentry, drug treatment at State prisons, and targeted local prosecutor initiatives.

- Reforming and Restructuring the Immigration and Naturalization Service [INS]. The INS has suffered from systemic problems the last few years, particularly those related to INS’ dual missions of service and enforcement. These systemic problems include: competing priorities; insufficient accountability between field offices and headquarters; over-lapping organizational relationships; and, lack of consistent operations and policies. To address these problems the President plans to develop legislation to restructure and split the INS into two agencies with separate chains of command and accountability, reporting to a single policy leader in the Department of Justice. One agency will be focused exclusively on service and the other will be focused exclusively on law enforcement.

TRANSPORTATION

SUMMARY

The President's budget fully funds the authorized levels for highways ($32.3 billion) and transit ($6.7 billion) under the Transportation Equity Act for the 21st Century [TEA-21], and the Federal Aviation Administration's airport grants ($3.3 billion), capital ($2.9 billion), and operating ($6.9 billion) programs under the Aviation Investment and Reform Act for the 21st Century [AIR-21]. Overall, the President proposes $61.2 billion in budget authority for transportation in fiscal year 2002. Discretionary budget authority is $15.9 billion. Over 5 years, the President proposes $324.7 billion in budget authority for transportation. The President's budget includes the following initiatives:

- Providing $5.1 billion for the Coast Guard, an increase of about $600 million (12 percent) over the $4.5 billion appropriated for fiscal year 2001. Of the proposed increase, $198 million is to support operations and $243 million to fund the initial acquisition request of the 15-year, $15 billion Integrated Deepwater System project intended to replace the Coast Guard's approximately 100 ships and 200 aircraft that operate more than 50 miles offshore).

- Funding for Amtrak at $521 million.

- Providing, under his New Freedom Initiative, $145 million to fund two new programs intended to assist Americans with disabilities in overcoming transportation barriers to work.

REDIRECTED RESOURCES AND POTENTIAL REFORMS

The President also proposes:

- Not repeating one-time special projects. The fiscal year 2001 appropriations acts included 90 unrequested projects that earmarked more than $1 billion outside the guaranteed funding levels of TEA-21.

- No new funding for the Maritime Guarantee Loan Subsidy Program [Title XI]. The subsidies that benefit corporations rather than individuals.

- Transferring the administration and funding of the Maritime Security Program to the Department of Defense.

LABOR

SUMMARY

The President's fiscal year 2002 Labor budget maintains labor law enforcement agencies at their 2001 levels, with a renewed emphasis on compliance assistance. The agency's discretionary budget authority is reduced from \$11.9 billion to \$11.3 billion by redirecting resources from lower-priority and duplicative activities to areas where there are demonstrated needs. The President's budget:

- Nearly doubles the funding for the newly created Office of Disability Employment Policy, with a \$20 million increase. This will allow it to undertake new activities to integrate individuals with disabilities into the work force.

- Establishes an administrative surcharge on the amount billed to Federal agencies for workers' compensation benefits, financing DOL's program administration expenses and boosting agencies' incentives to improve the safety of their workplaces.

REDIRECTED RESOURCES

The President's budget also:

- Redirects funding for certain targeted job training programs while restoring overall job training funding to around the 2000 level. This implies a \$360 million reduction from the current level.

- Also restores funding for international labor activities to 2000 levels, in order to prioritize workers in the U.S.

AMERICORPS AND THE ARTS

SUMMARY

The President's budget also contains the following proposals:

- **AmeriCorps:** AmeriCorps is the flagship program of the Corporation for National and Community Service [CNS]. The President's budget reduces the appropriation for CNS from $767 million to $733 million. But it adds $14 million to the National Senior Service Corps and provides $35 million for new initiatives involving seniors. $70 million in funding for the national service trust fund, used to pay AmeriCorps education awards, is not continued for 2002, since the fund already has sufficient balances to pay all demands for education awards.

- **NEA and NEH:** The President's budget provides for the continuation of programmatic activities of the National Endowment for the Arts [NEA] and the National Endowment for the Humanities [NEH] at the 2001 levels. NEA receives $105 million currently and and NEH receives $120 million. Minor increases are provided to both agencies to fund Federal staff costs. In the case of NEA, States would be also offered a greater say in how funding is spent.

- **Smithsonian:** The President's budget provides $494 million, a $40 million, or nine percent, increase over 2001. This is an increase of $30.8 million, or 46 percent, would go toward the repair, restoration and construction of Smithsonian buildings.

SCIENCE

SUMMARY

The budget thus continues to devote significant resources to scientific inquiry, space exploration, and the development and application of new technologies. Significant policy initiatives in the realm of science include:

- A sum of $4.5 billion for the National Science Foundation [NSF] in fiscal year 2002, an increase of $56 million over 2001. Of the NSF total, $1.5 billion for new research and education awards in 2002, funding nearly 10,000 new competitively reviewed awards.

- A total of $200 million to begin the President's Math and Science Partnership initiative which provides States with funds to join with institutions of higher learning strengthening math and science education in grades K-12.

- Funding of $20 million for multi-disciplinary mathematics research, aimed at transferring the results of mathematical research to the science and engineering disciplines.

- A 2-percent increase for NASA, to $14.5 billion.

- Increased funding for International Space Station development and operations consistent with a strategy of constraining Space Station cost growth.

- A 64-percent increase over 2001 for NASA's Space Launch Initiative, helping to meet the launching needs of commercial industry and dramatically reducing space transportation costs while improving safety and reliability.

- Funding for six space shuttle flights per year, and continued support of safety improvements in NASA.

REDIRECTED RESOURCES AND POTENTIAL REFORMS

The President's budget also:

- Reduces Space Station hardware costs and other Human Space Flight programs and institutional activities.

- Eliminates lower priority aeronautics programs and reduces underperforming information technology programs.

- Aggressively pursues Space Shuttle privatization opportunities.

- Suspends funding for the Commerce Department's Advanced Technology Program pending a reevaluation of this program funding private firms' R&D activities in the context of reducing corporate subsidies.

ENERGY

SUMMARY

The President' proposal for Energy provides $19.0 billion in budget authority for fiscal year 2002. That is $700 million, or 3 percent, below the fiscal year 2001 appropriated level. The budget proposal includes the following initiatives:

- Provides $1.4 billion over 10 years (a $120-million increase) for the Department of Energy's [DOE's] Weatherization Assistance Program to help low-income families who live in poorly insulated housing or have insufficient heating or cooling systems.

- Provides $1.4 billion for the Low-Income Home Energy Assistance Program [LIHEAP] funding to help low-income families heat their homes.

- Encourages the uses of solar and renewable energy by providing new tax grants for the installation of rooftop solar equipment and an extension of tax grants for fuel produced from renewable resources.

- Provides more than $2 billion over 10 years to reduce the environmental impact of using coal to generate electricity.

- Allows safe and controlled resource exploration in the Arctic National Wildlife Refuge [ANWR] and other Federal lands, generating $1.2 billion in revenue to supplement alternative energy research.

- Includes $8 million to support the Northeast Heating Oil Reserve that was established because of low heating oil stocks.

REDIRECTED RESOURCES AND POTENTIAL REFORMS

At the same time, the President's budget redirects resources away from programs and projects that are inefficient, low priority, or that subsidize corporations:

- The budget does not fund earmarks from the fiscal year 2001 enacted bill that were not assessed as part a merit-based or peer-reviewed process.

- The DOE intends to achieve significant savings in 2002 from restructuring and reevaluating the performance of major projects across the Department including environmental management and science projects.

- Research and development projects that subsidize large companies will be suspended or revisited to determine the appropriate role of the Department and the private sector.

- The Department will implement more consistent and aggressive cost-sharing requirements for applied research and development.

- DOE procurement will adopt best commercial practices and performance-based contracting.

ENVIRONMENT

SUMMARY

Among the initiatives included in the President's budget related to the environment and natural resources are the following:

- Fully funding the Land and Water Conservation Fund [LWC] at $900 million starting in 2002, or an increase of $356 million over 2001. This funding, which comes from receipts for oil and gas drilling primarily on the Outer Continental Shelf, is used by Federal and State governments for local conservation projects, natural resource protection, and outdoor recreation. This is the highest LWC budget request in history.

- Adding $440 million in 2002 as a down payment on eliminating the National Park Service's deferred maintenance backlog, currently pegged at $4.9 billion. This is a 30-percent increase in park maintenance funds over 2001.

- Adding $20 million for the National Parks to accelerate biological resource inventories, control non-native species, and preserve endangered and threatened species habitat on park lands.

- Providing additional funding for "debt-for-nature" swaps and other market-oriented methods to preserve tropical rain forests.

- Providing more than $1 billion in grants for States and tribes to administer environmental programs, the highest level in the EPA's history.

- Funding the Environmental Protection Agency's [EPA's] operating program – which accounts for its core regulatory, research, and enforcement activities – at $3.7 billion. This is the second highest level ever, and higher than 2001 if unrequested projects are excluded.

- Providing wastewater grants to States at a level $500 million more than requested by the previous administration for 2001, and directing a portion of those grants to newly authorized sewer overflow control grants.

- Continuing a high level of funding for the wildland fire program to reduce fire risk and minimize the damage of wildfires.

- Implementing five recently authorized Indian land and water settlements in California, Colorado, Michigan, New Mexico, and Utah.
- Substantially reducing the Bureau of Indian Affairs school repair and maintenance backlog, and funding replacement of six dilapidated schools on Indian reservations – with the goal of eliminating the backlog within 5 years.
- Increasing funding for Army Corps of Engineers program evaluating proposed development in wetlands.

REDIRECTED RESOURCES AND POTENTIAL REFORMS

The President's budget also:

- Reduces Department of the Interior funding by 4 percent relative to the 2001 level, though funding remains 15 percent above the 2000 level. Most reductions at Interior are achieved by not repeating one-time emergency spending, or eliminating funding for completed or non-recurring projects in 2002. Among these are $358 million in savings from emergency fire costs, and $35 million from the completed Millennium Initiative to Save American's Treasures. Also, funding is discontinued for unrequested Congressional earmarks in 2002.
- Saves $166 million by reforming the Federal disaster relief program with implementation of a public building insurance requirement and reduction of the Federal share of hazard mitigation grants.
- Terminates the Project Impact disaster preparedness campaign, which has not proven effective, saving $25 million.
- Phases out an unneeded fire grant program, saving $100 million.
- Saves $35 million by reforming the National Flood Insurance Program to discourage rebuilding of structures on lands that repeatedly experience devastating flooding and another $12 million by increasing subsidized premiums for certain residencies in areas with chronic flooding..
- Reduces funding for Corps of Engineers Civil Works program by $600 million below 2001 level, and redirects Corps funding from congressional initiatives in 2001 that were inconsistent with established policies.
- Refocuses Corps of Engineers funding on priorities such as port and harbor and inland waterway activities that support significant commercial navigation. Redirects funding from lower-priority activities such as recreational harbors and projects that are not economically justified, or which are environmentally damaging.

INTERNATIONAL AFFAIRS

SUMMARY

For International Affairs, the President recommends $23 billion in budget authority for fiscal year 2002. Discretionary spending is $23.9 billion in budget authority. Over 5 years, the President calls for $117.9 billion in budget authority.

The budget includes the following initiatives:

- **State Department:** The President is requesting a 15-percent real increase in the State Department's Administration of Foreign Affairs spending for 2002.

- **Embassy Security:** To improve the safety and security of personnel stationed overseas, the budget includes $1.3 billion for the construction of new, secure facilities, and to hire additional security officers.

- **Information Technology:** The President seeks to increase funding to expand the use of Information Technology in international affairs, including modernizing the secure communications capability of the State Department.

- **Assistance for Counter-Narcotics Activities:** The 2002 budget requests more than $500 million in new funding to maintain programs, provided in the 2000 emergency supplemental to support Plan Colombia. The budget also requests funding for Ecuador, Brazil, Venezuela, and Panama to strengthen their efforts to control drug production and the drug trade.

REDIRECTED RESOURCES AND POTENTIAL REFORMS

Other proposals include the following:

- Redirected Resources: In order to reduce subsidies that benefit corporations rather than individuals, the budget proposes reducing credit subsidy funding for the Export-Import Bank by approximately 25 percent ($215 million), as well as eliminating the Overseas Private Investment Bank's credit subsidy for 2002.

- The State Department also intends to reform its personnel policies and workforce planning, and to conduct a comprehensive review its current and future workforce needs.

BUDGET PROCESS REFORM

SUMMARY

The President proposes immediate and structural reform measures to improve the process of developing the Federal Government's budget. They are the following:

Immediate Action

- Restore an atmosphere of order and respect for the legally established process.
- Abide by the budget. Once Congress agrees to a budget, it should abide by the limits established therein. Ultimately, the President proposes that the resolution be a law, requiring his approval. Until that time, the President wants to work with the Congress to adopt and abide by a budget that contains total spending within a reasonable limit determined in advance.
- Establish a National Emergency Reserve fund to budget for true emergencies.
- Eliminate advance appropriations except where clearly justified.
- Complete action on appropriations bills in an orderly and timely fashion to avoid Government shutdowns.
- Curtail congressional earmarking, especially for special interest spending.

Structural Reforms

- Enforce and extend limits on spending and the "pay-as-you-go" [PAYGO] requirement.
- Make the current non-binding budget resolution a binding law.
- Restore the President's line-item veto authority.
- Convert the annual budget and appropriations process to a biennial cycle.

Specific Proposals

- **Discretionary Spending Limits (Caps) and Pay-As-You-Go [PAYGO]:** The President proposes limits that would allow discretionary spending to grow with inflation over the next 5 years. The President further recommends a return to the responsible adherence to established budget enforcement mechanisms which in turn will limit the growth in Government, protect surpluses when needed, and achieve debt reduction. The President recognizes that cap adjustments may be necessary in the future and sets aside a reserve for any necessary and additional needs in discretionary spending.

  The President also proposes to extend the PAYGO requirement for entitlement spending and tax legislation. The Social Security surplus and additional on-budget surpluses for debt reductions and contingencies are set aside. Any other spending or tax legislation would need to be offset by reductions in spending or increases in receipts.

- **Budgeting for Emergencies – The National Emergency Reserve:** By definition, emergency appropriations are intended to cover unforeseen events or large domestic disasters. Recently, however, emergencies have become a regular element of the budget process and magnets for special interest, non-emergency spending. The President proposes a setting aside a reserve of $5.6 billion for emergency needs and ensuring adequate funding in the regular budget for the four programs (Federal Emergency Management Agency's disaster relief fund, Department of Agriculture's fire fighting program, Department of the Interior's fire fighting program, and the Small Business Administration's disaster loan program) that generally respond to domestic disasters. The set-aside will be based on the historical annual average of large, extraordinary disasters, i.e. Hurricane Andrew, the Midwest floods, and the Northridge Earthquake.

  In regard to disaster funding, the President lists the following criteria:

  - The release of resources from the reserve will need to be approved by both the President and Congress.

  - Programs will be supplemented from the reserve fund only if the following conditions are met: first, the amount appropriated for the year in which the event occurs are equal or exceed the amount requested in the President's budget: second, the cost of the event exceeds the regular resources available to the program.

  - Funding for emergencies should be limited to expenditures that are sudden, urgent, unforeseen, and not permanent.

- **Reversing Abusive Use of Advance Appropriations:** The President proposes to reverse the practice of using advance appropriations to avoid spending limitations. This proposal would not affect advance appropriations for programmatic purposes, such as those funding multi-year construction programs.

- **Joint Budget Resolution:** The President proposes to give the budget resolution the force of law as an incentive to encourage cooperation with Congress and discourage political posturing. Together with biennial budgeting, early presidential involvement would help restore order to the budget process, he says.

- **Government Shutdown Prevention:** To avoid political leveraging on the threat of a shutdown to achieve spending objectives, the President proposes and automatic continuing resolution [CR]. If an appropriations bill is not signed by October 1 of the new fiscal year, funding would automatically be provided at the lower of either the President's budget or the prior year's level.

- **Line-Item Veto:** The President proposes that the Congress correct a constitutional flaw in the Line Item Veto Act enacted in 1996. Instead of allowing the authority to cancel spending authority and special interest tax breaks, the President proposes linking the line-item veto to the national debt. After determining the spending or tax benefits are not essential and will not harm the national interest, the savings would be instead be used to retire the national debt.

- **Biennial Budgeting and Appropriations:** The President believes a biennial budget would allow lawmakers to devote more time to oversight and resolving problems in other programs, ensuring that taxpayers' money is spent wisely and efficiently. In addition, Government agencies would receive more stable funding, which would facilitate longer range planning and improved fiscal management. Under the President's proposal, funding decisions would be made in non-election years.

ECONOMIC ASSUMPTIONS

SUMMARY

The administration's Office of Management and Budget [OMB] argues that its economic forecasts are more conservative than Blue Chip and that its estimates of revenue growth are even more conservative than those of the Congressional Budget Office [CBO]. As a result, OMB suggests that higher-than-expected revenues are more likely than lower-than-expected revenues, and larger surpluses could materialize.

Both the administration and CBO expect stronger economic performance in 2001 than the Blue Chip forecast of private-sector economists. The administration's forecasts real gross domestic product [GDP] growth for 2001 at 0.3-percentage-point higher than the Blue Chip. After 2001, the administration's GDP forecast is more conservative than Blue Chip throughout the projection period (2002-2011), and more conservative than CBO for 2002 and 2003. OMB projects slightly higher growth than CBO from 2004 through 2008, by 0.1 percentage point. The average rates of growth for the projection period are virtually the same between the administration and CBO (3.2 percent vs. 3.1 percent).

The administration estimates slightly lower inflation in near term than CBO does, but anticipates higher interest rates. OMB's estimates of changes in Consumer Price Index are 0.1 percentage points to 0.2 percentage points lower than those of CBO from 2001 through 2003. Nevertheless, both estimates are the same thereafter, with a 2.5-percent growth rate. The administration's estimates of short-term interest rates (3-month Treasury bills) are 5.3 percent in 2001 and 5.6 percent in 2002, while those of CBO are 4.9 percent and 5.0 percent. On average, the administration estimates are between CBO's and Blue Chip's. (Blue Chip's estimates for 2001 are closer to the current rates in both short-term and long-term rates.) The administration's estimates of long-term interest rates are also higher in the near-term than CBO and then remain lower by 0.1 percentage point from 2006 through 2011, averaging 5.7 percent for the projection period. Blue Chip estimates higher long-term rates for almost entire period, averaging 5.9 percent.

Unemployment rate estimates of both the administration and Blue Chip are about the same. By contrast, CBO estimates higher unemployment rates, particularly for the 2007-2011 period – by 0.5 percentage points to 0.6 percentage points.